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ECONOMICS
DEPARTMENT

THE FALLACY

OF

OUR MONETARY SYSTEM,

AS DEDUCED FROM ITS AUTHOR'S,

SIR ROBERT PEEL'S,

DEFINITION OF A "POUND."

BY CHARLES ENDERBY, F.R.S.

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THE FALLACY,

ETC. ETC.

So long as a difference of opinion exists as to the basis of the monetary system by law established in this country—so long, that is, as the fundamental question, whether a "pound" (of account) be a substance or a shadow—remains undetermined, it will be useless to exhaust our ingenuity in patching up the superstructure, with the view to remedy the financial disorder which we have *periodically* experienced since the year 1825, and from which we are now so severely suffering. To this single point, therefore, I propose confining myself on the present occasion; and I hope to be able to adduce reasons which may lead to a right perception of the case at issue.

The great authority on whom, as the architect of our present monetary system, the nation seems to be expected blindly to pin its faith in the matter, is Sir Robert Peel, who prefers claims to a sort of infallibility respecting it. It is from his own definition of the term "pound," as contained in the reports of his two speeches on the Bank Charter Act of 1844—the boasted "complement of the Currency Act of 1819"—in *The Times* of the 7th and 21st of May of that year, that I now proceed to show the utter fallacy of the grounds on which both those measures have been adopted.

Sir Robert Peel begins by asking, "What is a

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pound ? and what is the engagement to pay a pound ?" "If," says he, "a pound be a mere visionary theory —a fiction which does not exist either in law or practice; *in that case, one class of measures relating to paper currency may be adopted.* But if the word 'pound'—your common denomination of value—signifies something more than a mere visionary fiction, *then another class of measures relating to paper currency will be requisite.*"

We have here a distinct avowal that the subject admits of two separate propositions, the one being the alternative of the other, and each having its own class of measures. But although conceding this—although sensible that the case has a double issue—Sir Robert Peel discards the first proposition without the least examination of its merits, and confines himself entirely to the consideration of the last. "Now, *the whole foundation* of my measure rests," he says, "upon the assumption that, *according to law, according to the ancient monetary policy of this country, the meaning of a pound is neither more nor less than a definite quantity of gold, with a mark upon it to determine its weight and fineness.*" This definite quantity of gold, as fixed by law (the Act of 1819) is $123\frac{1}{2\,7\,4}$ grains of standard gold; consequently, one shilling being the twentieth part of a pound, is equivalent to about six grains of gold, and one penny to about half a grain. But it is precisely this law which itself requires to be justified before it can be urged as the proper groundwork of an ulterior measure, and the question raised on that point is now more agitated than ever; for although no one denies that, *according to law*, a pound is so many grains of gold, still but few are agreed that a pound is, *in reality*, what the law proclaims it to be. I will now examine how far Sir Robert Peel's definition of a pound is correct, "according to the ancient monetary system of this country." He remarks as follows:—

"The origin of the term 'pound' was this. In the reign of William the Conqueror, a pound of silver was the pound of account. The pound represented both the weight of metal and the denomination of money." Now, we very well know that a pound of silver, although the pound of account, was never stamped and circulated as *coin*, in the same manner that the piece of gold, of the nominal value of a pound, is now stamped and circulated. The pound of silver was, in fact, nothing more than a lump of metal, possessing, indeed, an intrinsic value, but not constituting in itself a fixed standard of value. All transactions were carried on by barter, and values fluctuated in accordance with the natural law of supply and demand, as well of the precious metals as of all other exchangeable commodities. It must be self-evident, that in the absence of any denomination of money, the *pound of silver* could not have changed its denomination, and the subsequent alterations which took place were, for a long period, in the purity of the silver, and not in the weight denominated a pound; for how could *that* alter? Whence, then, the analogy which Sir Robert Peel has sought to establish? *His* pound has not even the merit of representing, like the ancient pound of account, "both the weight of metal and the denomination of money;" and all that his argument amounts to is, that, inasmuch as, formerly, a "pound" was a pound of silver, so is it now $123\frac{1}{2\,7\,4}$ grains of standard gold. We are, therefore, told to consider that weight of gold as the expressive substitute for a pound of silver; but although, *by the same rule*, any thing else, no matter what, might equally be a "pound," we are forbidden to admit the possibility. The utter worthlessness of Sir Robert Peel's definition of the term is further demonstrated by his own Act (that of 1844) which sanctions the issue of 14 millions of paper pounds upon securities which have no gold basis whatever.

According to the same authority, an ounce of gold has been fixed by law to be £3 : 17 : 10½, *for the reason* that an ounce of gold and a pound of silver are the equivalents of each other. I will here again show that on this ground also Sir Robert Peel's premises and conclusions are just as much at variance as before; observing moreover, parenthetically, that if his reasoning as to the ancient silver pound were worth anything (which it is not), it would follow, upon the above hypothesis, that the present gold pound should be, not $123\frac{1}{2}\frac{1}{7}\frac{1}{4}$ grains, but one ounce.

In his first speech, already cited, Sir Robert Peel declares that, "*the only meaning* of an ounce of gold for £3 : 17 : 10½ is simply this—*that it is the relation which silver bears to gold with respect to value.*" If, however, we compare this declaration with his subsequent speech, delivered *only a fortnight afterwards*, we shall find that he signally destroys the theory he had previously laid down. Here are his own words—"Silver has now ceased to be a standard of value. Formerly 5*s.* 2*d.* an ounce (*i. e.* £3 : 2 : 0 per lb.) was the Mint price for silver; *but there is now no reference whatever to it. Your silver coin is now a mere token, and nothing else;* 5*s.* 2*d.* an ounce does not designate the value of your silver coin. The pound of silver now is about 66*s.* instead of 62*s.*" What a commentary upon all that he had previously uttered. First, a pound is now $123\frac{1}{2}\frac{1}{7}\frac{1}{4}$ grains of gold, *because* it was formerly a pound of silver; next, the *only meaning* of an ounce of gold for £3 : 17 : 10½ is *its relative value to silver;* and lastly, silver has now ceased to be a standard of value. The silver coin is a mere token, and the value of silver varies from 62*s.* to 66*s.* per lb.! Truly, we have here paradox upon paradox, and the mind seeks in vain the clue to such a labyrinth. It is scarcely necessary to remark that if, in effect, an ounce of gold and a pound of silver be

the co-relatives of each other, and £3 : 17 : 10½ (whatever £3 : 17 : 10½ may be) be, by some natural law, the fixed and immutable value of the first, so also must it be that of the last. Whereas, Sir Robert Peel's two quotations of the value of a pound of silver fall short of this standard, in the one case by 11*s.* 10½*d.*, and in the other by 15*s.* 10½*d.*, a result clearly proving how futile and mischievous must ever be the attempt to determine by legislative interference the relative value of one commodity to another. So much, then, for *the bases* upon which the great champion of our present monetary system rests his definition of a pound, and the defence of his abortive financial system, which does not even allow us to have a substitute for gold when gold leaves us, in greater quantities than it would if allowed to find its value in the market, and when, therefore, if a substitute be ever needed, it is most so. To show that Sir Robert Peel, in what precedes, has given expression to sentiments which cannot be the result of immature reflection, it is only necessary to quote the following passage from his speech of the 6th of May, 1844, viz. :—" Then it is said—and this is repeated over and over again—*and is one conclusive proof I have, that he who says these things has no more conception of the truth with respect to the measure of value than he has of any speculations in the most distant parts of the globe with which he is wholly unacquainted*—it is said what a monstrous injustice and folly it is to tie down the Bank to issue gold at the old price of £3 : 17 : 10½ an ounce. Now, &c., &c.," The words which I have underlined I retort upon himself, and appeal with confidence to others to decide if I am not fully justified in doing so.

But what is to be understood by the present standard of value? Is £3 : 17 : 10½ an ounce of gold, or only the value of an ounce of gold, and in this case, in *what* is the value to be estimated? In itself? Then, if so, what are the terms for the expression of

that value? Are the terms pounds, shillings, pence identical with ounces, pennyweights, grains? Is it a matter of indifference, in short, whether our accounts be kept in numbers or in weights? It might naturally be supposed that the adherents of a gold standard would have no difficulty in answering this question; yet strange as it may seem, not one of them of whom I have made the inquiry—and amongst whom are some who, from circumstances, ought to be oracles on such a subject—has been able to give me a satisfactory reply; nay, so little is their concord, that no two answers which I have received from them agree! Yet, assuredly, if the theory of a gold standard of value—the pound being a definite quantity of this precious metal—be at all tenable, it is inseparable from the condition of computation by *weights* in lieu of numbers; and this of course assumes the coining of the ounce of gold into half and quarter ounce pieces, and so on to the lowest denominations of the troy scale. Hence, the national debt, in lieu of its present nominal amount in pounds sterling, would figure (the impossibility, however, of any such conversion effectually laying bare the debt's fictitious character) at about 200 million ounces of gold; and as, in consequence, the numbers denoting prices must, in obedience to the same law, equally resolve themselves into the same elements, viz., weights, it follows that there could be no quotations; for how, in that case, would it be possible to express them?

That this is the strictly logical view of the question, and indeed the only one of which, without an absolute perversion of intellect, the premises admit, is manifest from the fact—on Sir Robert Peel's own showing—that if a national debt had existed in the times when a pound of silver was the pound of account, it would have been expressed *really* in pounds of silver, even as it is now *professedly* expressed in ounces of gold. We well know that the actual amount of the National Debt could have been as little con-

tracted as it can ever be repaid in the precious metals; a consideration which is or ought to be alone sufficient to convince us how repugnant to reason, to justice, and to common sense is the gold standard of value at which, in effect, the debt is estimated.

To Sir Robert Peel's inquiry—reiterated by him very recently—"If you promise to pay £5, in what are you going to make the payment?" the answer is an easy one, and this:—In anything you please: name your commodity, and the price at which you will take it; that is, the price obtainable for it in the market. There can be no dispute on this point; for if you *know* any product to be designated as of a certain value, that value is estimated in numbers denoting price, and is, consequently, exchangeable for the current money in circulation, whether the same be paper or gold. In the absence of due consideration to the subject of the inconvertibility of paper money into gold, it has been only too much assumed that gold could not be obtained at pleasure by the holders of bank paper during the last war. But no conclusion could be more erroneous than this; for how does it happen that we have a quotation of the price of gold for the whole of that period, varying from £3:17:10½ to £5:4:0 per ounce, if such quotations were not in the current circulating medium at the time? Surely, if any one holding Bank of England notes had been desirous of purchasing therewith a quantity of the precious metals, he could have done so in the market *unless they were absolutely without price;* and that this was at no time the case is proved by the fact of the quotations mentioned. These considerations, viewed in conjunction with the immense development of the national industry and resources which took place during the above eventful period, ought to satisfy every one whose judgment is not entirely blinded by prejudice, that, whatever may be alleged to the contrary, a paper currency not based upon gold can be

safely and efficiently introduced, without disturbing either our domestic or foreign relations.

As regards a "pound," viewed with reference to the foreign exchanges, Sir Robert Peel observes—"All payments abroad are regulated by the *course of exchange*, and it is founded on the intrinsic *value*, not on the mere names of the coins. There is, I say, no more reason why you should change a pound than to say a foot shall be a foot and a half." Doubtless, all payments abroad are regulated by the course of exchange; but the course of exchange is a mere quotation of prices which vary constantly, thereby proving that the gold "pound" is a *fluctuating value*, for it is obvious that every variation in the rate of exchange makes that pound, though nominally unaffected, in reality more or less; and that, consequently, a pound has not a tangible reality. To bear out Sir Robert Peel's view of the immutability of his pound, we must suppose the quotations to express *definite quantities* of the precious metals, a conclusion which is at once ridiculous and illusory, since it converts prices into weights, the same as in the case before suggested of the National Debt being estimated in ounces of gold. Nor is Sir Robert Peel more happy in his attempt to illustrate the subject by reference to the foot measure. Measures of length, weight, and capacity are things determinate and unchangeable, and can no more be increased or diminished, without ceasing to be what their name implies (unless fraud be practised), than a man can become a horse. They are not antagonistic to themselves; for they do not combine in themselves value and its measure. Hence, multiply them as indefinitely as you may, throw them into or withdraw them from circulation, the result is just the same—they affect the value or the measurement of nothing; and were they all lost to-morrow, no inconvenience would be felt, since their *elements* would remain, and they could therefore be immediately replaced. Not

so, however, the Peel standard or measure of value. Being made of a material at once scarce, costly, and in use *as merchandise*, it is ever liable to the fluctuations consequent on the supply and demand of that material, nor can this tendency be counteracted (as experience proves) through the medium of an artificially fixed price. The effect is that the *measure of value*, not being able to separate itself from the fluctuating value co-existing with it in the same material substance, is, though professedly constant, ever varying and uncertain, and is thus both a fraud and a delusion. To repeat, in conciser terms, what I have already stated, I would merely add that if a vast number of foot-rules, pound-weights, or bushel-measures were issued from or withdrawn by the Exchequer, they would not alter the weight, measurement, or capacity of any thing; whereas the issue or withdrawal of a vast number of measures of value (sovereigns) would derange the values of all things. The absurdity, moreover, of constituting such a commodity the standard of value will appear still greater when it is considered that, were every gold sovereign to be exported from the country in the course of trade or from any other cause, the standard of value would disappear also, and could not be replaced unless the gold came back again. Meanwhile, although we might sorely miss the *gold* as an article of trade, we should get on, we may rest persuaded, much better without the *standard* than with it. Should ever this contingency be realised (and another deficient harvest might alone induce it), the climax of the absurdity and injustice of the gold standard would be reached. The bare possibility of such an occurrence is, indeed, a sufficient indication of the unsoundness of the entire system. Nor would it answer any purpose to raise the gold standard to a higher point, or to substitute any other standard for it, for all experience attests that a fixed standard of value is in itself a fallacy.

For the various reasons adduced, I submit that Sir Robert Peel's definition of a pound is false in theory, and the "class of measures" founded on it are ruinous in practice.

I maintain, on the other hand, that the expression "pound" is merely a number—a conventional term—an ideal unit, and, consequently, that the other "class of measures," which Sir Robert Peel admits to be involved in this proposition, should be adopted. These measures, I conceive, essentially resolve themselves into—

1. The abolition of the gold standard, and the convertibility of the paper currency into gold at its market price.

2. The limitation of the issues to one, or, at most, three banks, and the regulation of those issues by a fixed rate of interest, say four per cent.

I propose neither an unlimited issue of paper money, nor issues that are not based upon securities. It is not the *use*, but the *abuse*, of that species of currency which occasions insecurity; and we have the prosperity attained by this country during the war, through the medium of a paper currency (although occasionally mismanaged) to oppose to the objections which may be made to the re-adoption of that system. If, in other countries, as France, Russia, and the United States, paper money has, at different periods, produced a contrary effect, this has arisen from the circumstance that it was not subjected there to the control of which it is susceptible, the issues which took place not being based upon securities, and being in excess of all fair and reasonable demands.

In proof that paper money not resting on a gold basis *is* susceptible of management, it may be sufficient to refer (although to do so is to cite a case of monstrous hardship and injustice) to the period between the termination of the war and the resumption of specie payments, when, owing to the powerful action brought

to bear upon the paper currency, for the purpose of establishing the gold standard, the prices as well of labour as of products were reduced fifty per cent., gold amongst the rest declining from £5:4:0 to £3:17:10½. It is indisputable, therefore, that a paper currency, based upon securities, is *not*, as some imagine, beyond the reach of regulation; although, as in the case adduced, the power may be wielded for the purpose of effecting a pernicious object.

The very notion that such paper money can be *inconvertible* is, I contend, an absurdity. So long as prices continue to be quoted, say in pounds, shillings, and pence, so long must a note *expressing value* be in a position to buy any other note, or money, or any commodity of similar denomination in value. If one note for £5 will not exchange for another note of £5, or for any given commodity, then there must exist a want of confidence in the issuers of the former of such notes, who, on its presentation to them, should be compelled to enable the holder to obtain its current value in the shape desired.

I do not recommend any alteration or contraction of the coinage, other than that the Government should charge a sufficient sum to meet the Mint expenses. The gold coins, however, should merely be what the silver and copper coins now are, viz. tokens; and if we consider how many of the sovereigns actually in circulation are short of the standard weight, and in fact not, therefore, worth more than 19*s.* 6*d.* or 19*s.* 9*d.* each, we shall at once perceive that our gold coins pass current at this moment for more than their real value—a circumstance of which we were lately reminded when a cry was raised of "light gold." On the other hand, if the price of gold should rise so that the sovereign were worth, for instance, £1:0:3, and, small notes being issued, speculators should avail themselves of them to purchase gold for the purpose of exportation, such exports, in the ordinary course of trade, must necessarily be confined within very narrow

limits, for in what could other nations pay for our whole stock of gold in circulation (£35,000,000), supposing they desired to purchase it? or how could they hope permanently to retain it? The effect of continuous large exports must be to depress the price of gold in the market to which we sent it, and consequently the gold would come back again and be paid for in our goods without the process entailing any such sacrifices as it involves under the present system.

In this country, as is well known, the reduction of the rates of interest by the Bank of England has, on *numerous occasions*, unduly stimulated speculation; while on the other hand, it is equally notorious that when the inevitable re-action has taken place, the Bank, by raising its rates, has caused incalculable loss to those of whose stability there existed not the slightest doubt.

Now, the object being that the rate of interest should regulate the supply of money, without reference to the precious metals (which should be treated the same as other articles of merchandize), and not the supply of money the rate of interest, it is necessary that the rate of interest at which the banks of issue (be they one or three) should advance their notes be fixed, and I consider that four per cent. would be sufficient to insure the object aimed at.

Whilst the rate of interest is fixed the value of money is unchanged; there may be speculation, and losses may occur (as must be more or less the case under whatsoever system); but should they happen, they will not, at least, be attributable to too great a facility in obtaining money; while, at all events, neither speculation will be so great, nor the losses it may entail so severe, as has always been the case under a fluctuating rate of interest. Should it be objected that the principle of a fixed rate of interest has been given up in France, it may be replied that this objection resolves itself into a charge, not against a fixed rate of interest, but against a me-

tallic currency, since in France they co-existed; whereas, in England, the suggested fixed rate of interest would co-exist with a paper currency, so that there is no point of analogy between the cases.

The advances by the issuing banks should be on bills or other securities, not having more than three months to run, which bills should be as equally distributed as possible over the whole period, so that by their being gradually in course of liquidation, the circulation would always regulate itself. The Bank Directors would, doubtless, be desirous to extend the circulation of their notes; but they would not be less scrupulous than at present in looking to the nature of the securities on which they are to make advances; their issues, therefore, would be regulated by prudence and the wants of trade.

Whilst money is *scarce*, the issuing Banks would continue to make advances; the moment, however, the market became sufficiently charged with notes, the fact would betray itself by an excess of money, in the hands of bankers, bill-brokers, &c., who would be willing to advance money (that put in circulation by the issuing bank or banks) at a reduced rate of interest. From this period, therefore, any further extension of the currency would be arrested; and a daily contraction of the circulation would be effected by the securities running out on which the Banks had made advances, and the corresponding issues being returned to be cancelled.

The bankers and bill-brokers, not being restricted in their rates of interest, would generally be able to obtain higher rates than the bank of issue, since they would have the opportunity of advancing money on bills at longer dates than three months, and on dock warrants, &c. Opposed to a system of this simple nature, how preposterous is the doctrine which makes the precious metals—bullion or coin—lying idle in the Bank, the indication of an abundance or a scarcity

of money in circulation! With just as much, or rather with as little reason, might it be argued that the gold ore in the mines should be an index of the bullion in the Bank.

I have now completed, however imperfectly, the task I set myself; and, in performing it, I have felt that I have but discharged a public duty. Should the facts and statements herein contained serve to stimulate the spirit of inquiry already animating the public mind in regard to the all-important subject to which they relate, my purpose will have been answered. I lay down the proposition, and challenge any one to refute it, that if a "pound" (of account) be, as Sir Robert Peel contends, *a substance*, then all transactions must be purely transactions of barter, and consequently there could be no fluctuations in prices or exchanges, since there could be none in weights. If, as Sir Robert Peel desires, we are to repose faith in an argument which assumes the possibility of fluctuations in prices and exchanges, yet defines expressions of money to be not mere numbers but the signification of given weights of substances, then must we believe what the evidence of our senses impels us to reject, because, in this case, we must consider $123\frac{1}{2}\frac{1}{7}\frac{1}{4}$ grains of gold to be something different from itself, as, for instance, a fluctuating quantity of silver; and by a parity of reasoning, a yard of cloth in one place may be a bushel of wheat in another. For it is manifest, that if the variation in quotations of prices be held to denote the relative values of the same product in different places, so must it also denote that the same denomination of *value* means two or more products.

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